

**OPENING STATEMENT OF PETER KRENKEL, PRESIDENT OF  
NATURAL GAS EXCHANGE INC.  
U.S. COMMODITY FUTURES TRADING COMMISSION  
HEARING ON EXEMPT COMMERCIAL MARKETS  
September 18, 2007**

My name is Peter Krenkel, and I am President of Natural Gas Exchange Inc. (NGX). I want to thank the Commission for providing me with an opportunity to participate in this hearing today. Although the majority of NGX's operations are currently in Canada, from NGX's perspective the natural gas market is now continental in nature and the border effectively no longer exists. The U.S. currently purchases about half of Canada's natural gas production and is a significant purchaser of Canadian crude oil and other energy. The U.S. regulatory framework has an impact not only on NGX as an exempt commercial market (ECM), but also more generally in terms of the direction in which Canadian regulation evolves.

NGX is a Canadian company, based in Calgary, Alberta, and is a wholly-owned subsidiary of the TSX Group Inc., which owns and operates senior and public venture equity exchanges in Canada, known as the Toronto Stock Exchange and the TSX Venture Exchange. TSX Group purchased NGX in 2004 and recently acquired an option to purchase NetThruPut Inc., a Canadian based oil exchange, exercisable after March 2009. As publicly disclosed, NGX entered into an alliance with the IntercontinentalExchange Inc. (ICE) in March of this year, which primarily involves the provision of certain system services by ICE and certain clearing services by NGX.

NGX launched its business in 1994 with an electronic system and has never operated a floor. NGX provides trading and clearing services for natural gas and electricity instruments at key markets in North America. At present, the bulk of our business is in physical natural gas contracts with the greatest liquidity at the AECO, Alberta and Dawn, Ontario markets. Our electricity business has evolved over the past five years and is starting to develop continuous liquidity levels.

NGX has participants based in Canada and the U.S, all of which are sophisticated entities and transact as "principals"; the majority are energy companies, with the addition in recent years of more banks and hedge funds. Participants' bids and offers are entered into NGX's electronic trading platform and matched on a price/time priority basis. NGX is the central counterparty in every transaction and as such ensures each transaction is firm and anonymous from trading through clearing and settlement.

Since launch, our traded and cleared volumes have grown gradually to current trading levels of over 900 BCF per month, or approximately twice the Canadian underlying physical production in natural gas. Over 95% of NGX's volumes are in spot and forward physically settled contracts. NGX's business plan continues to be to develop new OTC-style products that are traded and cleared in accordance with our standardized terms and conditions. NGX has also developed some unique products, such as balancing

instruments, that enable participants to correct imbalances in their pipeline accounts and which have provided considerable benefits to the market and pipelines.

NGX has brought many benefits to participants in the Canadian energy markets, such as increased transparency, standardized rules, financial discipline associated with margining and clearing, and providing an alternative for dealing with bilateral credit issues. NGX provides a unique service of clearing physical contracts which includes managing daily deliveries of natural gas. In addition, the NGX platform is used to determine several key price indices that are used widely in contract settlement by the OTC market, and other exempt and regulated exchanges.

In Canada, regulation of commodities trading is a provincial matter. NGX has exemptive relief, as a commodity exchange, from its primary regulator the Alberta Securities Commission. The exemptive relief order is based on certain terms and conditions being satisfied, including compliance with nine “operating principles” that embody principles-based rules. NGX is essentially audited by the ASC on a regular basis which is comprised of an annual oversight review that tests NGX’s compliance with the “operating principles”. NGX also has exemptive relief orders from applicable provincial regulators in other Canadian jurisdictions. NGX has been an ECM under U.S. law since 2002.

As energy markets in Canada are inextricably linked with those in the U.S., NGX’s business perspective has been global. In our view, it is essential that there be a comparable regulatory regime on both sides of the border. The ECM structure is, in general, more consistent with the type and degree of oversight currently provided by Canadian regulators, hence reducing the burden of double regulation. We believe the regulatory regime must be flexible enough to accommodate diverse business models and to maintain the appropriate balance between regulatory oversight and ongoing evolution of a robust and transparent North American energy market. NGX supports principles based regulation and having different levels of regulation that take into account important distinctions between trade execution facilities, such as, the degree of sophistication in the market, the types of instruments being traded and the liquidity of the products. From our perspective, the ECM regulatory framework has been successful in striking this balance.

In closing, NGX is a proponent of effective and efficient regulation and has embraced regulatory oversight on both sides of the border. We continue to be dedicated to the goal of ensuring greater transparency and maintaining the integrity of the markets, which in part relates to the ongoing sharing of information with our regulators, including the Commission. We embrace opportunities from both an external and internal perspective for regular reassessment of oversight measures and look forward to participating in the dialogue today on this subject, and going forward.